

ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Special Services Fees and Classifications) Docket No. MC96-3

FOLLOW-UP INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE TO
UNITED STATES POSTAL SERVICE
(OCA/USPS-74)
(September 13, 1996)

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits a follow-up interrogatory and request for production of documents. Instructions included with OCA Interrogatories 1-4 to the United States Postal Service dated June 19, 1996, are hereby incorporated by reference.

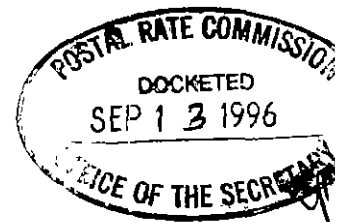
Respectfully submitted,

Gail Willette

GAIL WILLETTE

Director

Office of the Consumer Advocate



David Ruderman

DAVID RUDERMAN

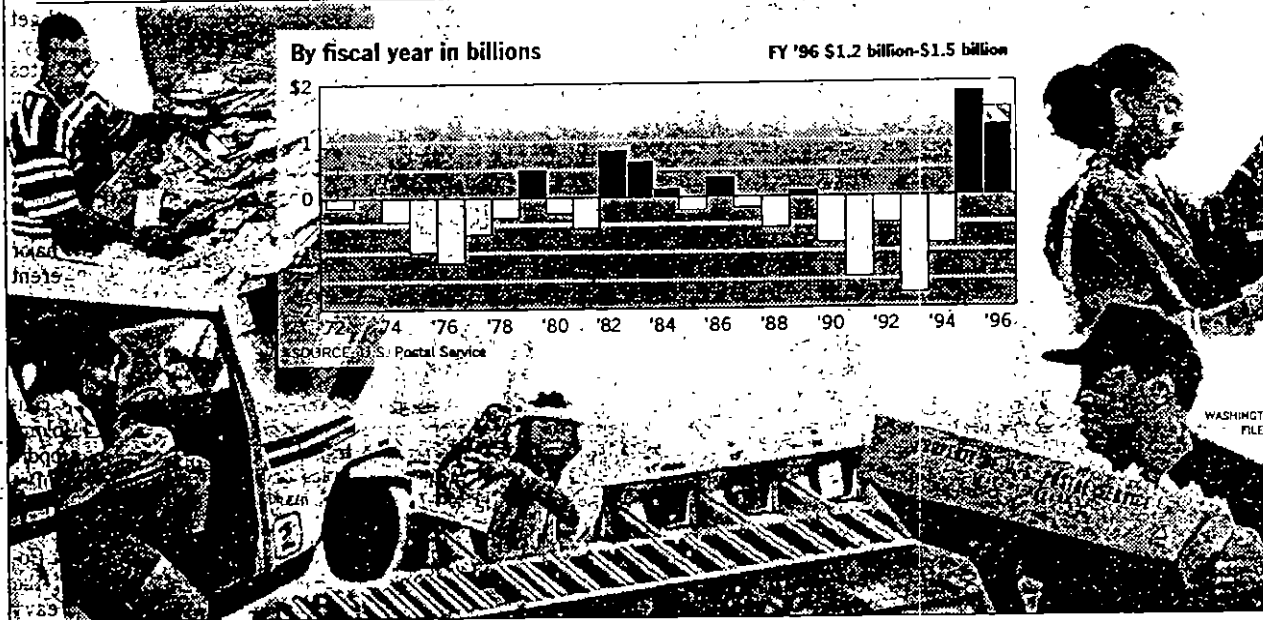
Attorney

OCA/USPS-74. Please refer to your response to NM/USPS-7 and Attachment 1.

- a. Please confirm that the Postal Service estimates the FY 1996 profit to be between \$1.2 to \$1.5 billion. If you are unable to confirm, please explain.
- b. Please confirm that The Washington Post reported on September 11, 1996, at A21, that the Postal Service estimates FY 1996 profits to be \$1.2 billion. If you are unable to confirm, please explain.
- c. If the attachment to NM/USPS-7 no longer represents the Postal Service's best estimates, please provide the most current Postal Service estimates.
- d. Please confirm that the Postal Service's newly approved budget estimates FY 1997 net income to be \$55 million. If you are unable to confirm, please explain.

THE FEDERAL

POSTAL PROFITS AND LOSSES



Postal Service Hopes to Deliver a Surplus Budget Forecasts Third Straight Year of Profit, but Much Depends on Productivity (C

By Bill McAllister
Washington Post Staff Writer

The U.S. Postal Service, which soon will report its second annual profit of more than \$1 billion, yesterday set its sights on three years in the black.

This year's profit, estimated at \$1.2 billion, was a major accomplishment for Postmaster General Marvin T. Runyon, who last year ordered a strict cost-cutting program to hold off any increase in stamp prices. The agency reported a record \$1.7 billion profit in fiscal 1995.

The agency's newly approved 1997 budget, which calls for a modest \$55 million profit, again will test Runyon's management skills—and, no doubt, the cooperation of the agency's big labor unions. Runyon already has cut costs by trimming overtime and eliminating programs he found unproductive. To save more, he has said he wants the agency to contract out some operations to private industry, a proposal that has infuriated postal unions.

Since the Postal Service became an independent agency 25 years ago, it has never shown a sizable profit three years in a row. Instead budgets have typically run in three-year cycles: forecasting a profitable first year of a rate increase, a break-even second year and losses in the third. Stamp prices were last raised on Jan. 1, 1995.

stamp prices at current levels as long as possible. He described the new budget as "bold," but did not offer details yesterday of how he plans to continue cutting costs during a year when labor costs are projected to rise 6.3 percent.

As the agency's board of governors endorsed the 1997 budget, however, they made clear that the Postal Service will focus on labor problems next year. Many workers hired in recent years earn lower wages than their predecessors, but also have been less productive than officials would like. "One of the secrets [to making the new budget work] is raising productivity," said board member Robert F. Rider.

While Runyon's initiatives have pleased large mailers, the good fiscal news from postal headquarters has not overwhelmed the mail industry. Overall mail volume this year has grown by 0.6 percent, well below the 2.9 percent growth rate on which the 1997 budget is planned.

"Mailers apparently have good reason to be skeptical of postal management's promises of good times ahead," said the Advertising Mail Marketing Association in its latest newsletter. The bulk mailers group noted that "overall postal employment has grown three times faster over the past year than mail volume. . . . If postal productivity fails to improve while labor costs continue to rise, it may be impossible for the USPS to sustain itself, as it exists today, much less into the 21st century."

Edward J. Climer, chairman of the industry

said overall USPS productivity is down 1 percent, the third straight year of decline.

Aside from Rider's caution, there was skepticism about the budget at the postal unions' public meeting. They did press M. Riley, the Postal Service's chief financial officer, about how realistic the 1997 figures are.

Riley called the budget "aggressive" knowledge it would be "difficult" to meet. Nonetheless, he predicted that under Runyon's agency would make the projected numbers.

"You talk about expectations and what you will make it," said board member R. McWherter, a former Tennessee governor. Member S. David Finerman pointed to the nation's economy as key to boosting revenue and described some of Riley's budget assumptions as "conservative."

The 1997 budget projects that overall revenue will rise by 4.6 percent to \$58 billion next year. But overall expenses will rise 5.5 percent, trimming profit to \$55 million. The budget also assumes the agency can reduce chronic productivity problems and increase productivity by 1.5 percent over 1996.

Productivity is a critical factor because costs amount to 80 percent of the Postal Service's costs, a share Runyon has noted above the 50 percent for Federal Express.

All segments of mail are supposed to show a profit in the agency's forecast, but first-class mail and bulk mail are the only ones that

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 3.B(3) of the special rules of practice.

A handwritten signature in cursive script, appearing to read "David Ruderman".

DAVID RUDERMAN
Attorney

Washington, D.C. 20268-0002
September 13, 1996